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RUEHGH/AMCONSUL SHANGHAI PRIORITY 0020
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UNCLAS SECTION 01 OF 03 MEXICO 001810

SENSITIVE
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SUBJECT: MEXICO AND CHINA AGREE ON PHASED LOWERING OF
MEXICAN TRADE BARRIERS

REF: (A) 07 MEXICO 616 (B) 07 MEXICO 2858 (C) 07
MEXICO 5323 (D) 07 BEIJING 5700

MEXICO 00001810 001.2 OF 003

Summary

¶1. (U) Mexico and China avoided a serious trade impasse by reaching an agreement on a transitioned approach to eliminating and/or reducing Mexican anti-dumping (AD) duties on a wide range of Chinese manufactured imports. Assuming the deal is approved by the Mexican Senate (as expected), Mexico will eliminate duties on products covered under 749 tariff lines while maintaining, but lowering, duties on 204 others considered 'sensitive' by Mexican industry. Duties on those 204 tariff lines will gradually be reduced to zero by December 2011. Mexico will not seek any further protection of those products before then, and China will refrain from pursuing a WTO challenge. Separately, Mexico and China have agreed to: coordinate on sanitary and phyto-sanitary requirements; cooperate in combating illegal trade; and expedite the conclusion of negotiations on a bilateral investment treaty.

Background

¶2. (SBU) Mexico currently levies extremely high AD duties on a wide range of industrial products covered by 953 tariff lines. These duties were imposed before China joined the WTO, and clearly do not comply with WTO rules. China finally gained the right to challenge Mexico's AD duties via the WTO at the end of last year, when the grace period established in China's WTO accession agreement with Mexico finally expired (REFS A and B). China's interpretation of the "grace period" provision was that Mexico would eliminate all of its WTO-inconsistent AD duties on Chinese products by December 12, 2007, while Mexico's interpretation was that it merely

had to begin to review them by that date (REF C). This situation was a major contributor to the bilateral trade friction reported in REF D, and China had indicated it was prepared to file a WTO complaint if Mexico did not change its position. According to Rocio Ruiz, Mexico's Under Secretary of Economy for Industry and Commerce, Mexico would surely have lost the WTO case, and an appeal would only have staved off the inevitable conclusion, giving domestic industry perhaps a total of 18 months before Mexico would have been compelled to eliminate its AD duties on all 953 of tariff lines in question. In addition, Mexico was keen to prevent further deterioration in economic ties with its second-largest trading partner and a huge, growing economy that presents both export and investment opportunities. These considerations led the GOM to choose negotiation over confrontation.

Terms of the Agreement

¶3. (U) The two governments held four rounds of negotiations between November 2007 and April 2008. These negotiations led to the signing of a Transitional Trade Agreement on Anti-Dumping Duties on June 2, 2008 by Mexican Economy Minister Eduardo Sojo and Chinese Commerce Minister Chen Deming (the two were attending an APEC trade ministerial in Arrequipa, Peru). Under the terms of the agreement, Mexico will eliminate its AD duties on 749 tariff lines this year, assuming that the Senate approves the agreement when it returns to session in September. Meanwhile, AD duties on another 204 tariff lines will be gradually reduced until they drop to zero on December 12, 2011, leaving just the MFN tariff rate for each product (35 percent for apparel, 10 percent for textiles, etcetera). The 204 tariff lines that

will continue to receive varying degrees of AD protection cover products in the following sectors: textiles; clothing; footwear; toys; bicycles; baby carriages; tools; domestic appliances; machinery & electric devices; chemical products; lighters; pencils; valves; certain light bulb materials; locks; and candles. According to Mexico's Economy Ministry, these industries account for 9.5 percent of the manufacturing sector's GDP and almost a million jobs. Under the agreement, the varying levels of AD duties on these tariff lines will be lowered each year, reaching zero on December 12, 2011. For example, in the case of textiles, anti-dumping duties of 501 perecent are currently in force. Many tariff lines will drop to zero as soon as the Mexican Senate approves the deal. For those considered sensitive, the 501 perecent AD duty will fall to 110 percent upon entry into force this year. In 2009, it will fall to 100 percent, in 2010 to 90 percent, in 2011 to 80 percent, and on December 12, 2011, to zero. Mexico will not seek further trade remedies against imports of these items from China, and China will refrain from any WTO challenge to the agreed-upon AD duty levels until December 12, 2011. Both countries do retain the right to initiate WTO complaints related to other products.

Business and Congressional Reactions

¶4. (SBU) The agreement mandates its own entry into force by October 15, 2008 at the latest, meaning the Mexican Senate will have to act on it soon after it re-convenes in regular sessions this September. Mexican producers would have preferred keeping in place the protection provided by the very high barriers currently in effect, but our private sector contacts report that the GOM did a good job of liaising with them, both to warn of the very real risks of losing a WTO case and to help identify the specific tariff lines for which it made sense to seek extended AD protection. As a result, the manufacturing sector largely supports the agreement, and this support will likely translate into smooth Senate approval.

Sub-Committee on Economic and Trade Affairs

¶5. (U) At the end of May, Beatriz Leycegui, Under Secretary of Economy for International Trade Negotiations, visited Beijing for a meeting of the econ/trade sub-committee under the Permanent Bilateral Commission the two countries have established. According to the Economy Ministry, the meeting focused on enhanced coordination on sanitary and phytosanitary requirements and initiating bilateral cooperation to combat illegal commercial practices such as contraband and triangulation (the practice of re-labeling Chinese goods that arrive in U.S. ports such as Long Beach as "made in the USA" before shipping them duty-free to Mexico under NAFTA, thus avoiding Mexican MFN tariffs on Chinese goods). The two sides also committed to wrapping up negotiations of a bilateral investment treaty as soon as possible.

Comment

¶6. (SBU) It was clear that Mexico's prohibitively high anti-dumping duties on a wide range of Chinese products (up to 1,000 percent) would not have stood up to WTO scrutiny. This, plus the Calderon Admnistration's free trade instincts, led the GOM to the negotiating table, where it managed to take much of the potential political sting out of the deal by maintaining AD protection for the most sensitive industries for another four years (after which MFN tariffs will continue to apply), giving them yet more time to prepare for competing

in the global marketplace. The GOM also believes that normalizing tariff levels on Chinese imports will significantly reduce instances of contraband, triangulation, and corruption at ports of entry. The Chinese, on the other hand, gained immediate relief for a big swath of affected exports and a four-year time-line for achieving the same for the rest, thus avoiding the delay and ill-will that a WTO dispute would have entailed. End comment.
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